

INTERSTATE
DEPARTMENT STORES, INC.
NEW YORK, N. Y.

ANNUAL REPORT

YEAR ENDED
JANUARY 31, 1944

INTERSTATE DEPARTMENT STORES, INC.

DIRECTORS

ROBERT S. ADLER	WILL I LEVY
REAGAN P. CONNALLY	HAROLD F. LINDER
CHRISTIAN E. DAHLGREN	FRANK J. MELEY
CHARLES E. FEDERMAN	WILLIAM ONASCH
PAOLINO GERLI	ALBERT PARKER
R. C. KRAMER	BENJAMIN W. STREIFLER

HAROLD J. SZOLD

OFFICERS

<i>President</i>	REAGAN P. CONNALLY
<i>Chairman of the Board</i>	R. C. KRAMER
<i>Vice President—Store Operation</i>	WILLIAM ONASCH
<i>Vice President—Merchandising</i>	BENJAMIN W. STREIFLER
<i>Treasurer</i>	FRANK J. MELEY
<i>Secretary</i>	ALBERT PARKER
<i>Assistant Secretary</i>	ARTHUR STROM

<i>Transfer Agent</i>	BANK OF THE MANHATTAN COMPANY..	New York
<i>Registrar</i>	MARINE MIDLAND TRUST COMPANY...	New York
<i>General Counsel</i>	PARKER, CHAPIN AND FLATTAU.....	New York
<i>Public Accountants</i>	S. D. LEIDESDORF & Co.....	New York
<i>Executive and General Offices</i> ..	111 EIGHTH AVENUE.....	New York

APRIL 17, 1944

TO THE STOCKHOLDERS OF
INTERSTATE DEPARTMENT STORES, INC.

There are submitted herewith the Consolidated Financial Statements of the Company and its subsidiaries as at January 31, 1944, and for the fiscal year then ended.

The consolidated net profits before Federal Income and Excess Profits Taxes amounted to \$4,336,529 compared with \$3,574,873 for the preceding fiscal year. After Federal Income and Excess Profits Taxes, however, the consolidated net profits for the fiscal year ended January 31, 1944 amounted to \$1,126,529 compared with \$1,124,873 for last year.

Sales for the year ended January 31, 1944 were \$41,545,205 compared with \$38,069,423 for the previous fiscal year in the same number of stores.

Customers' accounts receivable, after reserves, were \$867,885 on January 31, 1944 as compared with \$1,197,206 on January 31, 1943, a decrease of \$329,321. These accounts are in good current condition and reserves have been set up which, in the opinion of the management, are adequate to provide for losses.

During the fiscal year, the Company sold, at par, \$3,000,000 principal amount of its 3¾% Sinking Fund Debentures, due November 1, 1958, to The Equitable Life Assurance Society of the United States. At the same time that the Debentures were sold, the Company entered into an agreement with a group of five banks providing the Company with a revolving credit until June 30, 1947 in the aggregate amount of \$5,000,000 at any one time outstanding.

On February 15, 1944 all the 18,329 outstanding shares of the Company's 7% Cumulative Preferred Stock were redeemed at the required redemption price of \$110 per share plus dividends accrued to the date of redemption. Of the proceeds of the sale of the Debentures, \$2,021,179 was applied to such redemption of the Preferred Stock.

The net working capital as of January 31, 1944, which includes the balance of the proceeds of the Debentures, was \$6,990,783, compared with \$5,951,131 in the previous year.

Due to Government war time restrictions and lack of materials, only a limited amount of remodeling in the stores was accomplished. However, the Company did continue as in previous years to effect a great deal of maintenance work in order to maintain the stores in good condition for the duration.

The problems encountered in operating during the trying period through which we are passing have increased the burdens of our employees and officials. The management takes this opportunity to express its sincere appreciation to the personnel of our organization for their fine efforts on the Company's behalf.

Yours very truly,

REAGAN P. CONNALLY,
President.

INTERSTATE DEPARTMENT AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

	As at January 31, 1944	As at January 31, 1943	
CURRENT ASSETS:			
Cash on hand and in banks.....	\$ 2,746,705	\$ 2,996,599	
U. S. Government securities (at cost) and accrued interest.....	195,597	300,439	
Accounts Receivable—Customers:			
Charge	\$ 163,253	\$ 138,527	
Layaway and C. O. D.	336,737	442,223	
Deferred payment	521,638	790,678	
	1,021,628	1,371,428	
Less: Reserves for doubtful accounts, etc.	153,743	174,222	
	867,885	1,197,206	
Due from insurance companies, vendors and others	170,972	101,344	
Less: Reserve for doubtful accounts	3,500	3,500	
	167,472	97,844	
Merchandise inventories—(Note A)	5,730,694	6,054,002	
Total Current Assets	9,708,353	10,646,090	
OTHER ASSETS:			
Post-war refund on Federal excess profits taxes	532,728	204,622	
Miscellaneous other assets, including rent deposits, due from land- lords, employees, etc., less reserves.....	44,448	47,868	
Due from officer—re: stock purchase agreement.....	60,000	—	252,490
FIXED ASSETS—AT COST:			
Alterations and improvements to leased premises	655,425	651,097	
Less: Reserve for depreciation	472,251	395,741	
	183,174	255,356	
Fixtures and equipment	1,308,152	1,227,788	
Less: Reserve for depreciation	571,252	490,460	
	736,900	737,328	992,684
LEASEHOLDS	272,029	272,029	
Less: Reserve for amortization	169,898	155,528	116,501
DEFERRED CHARGES:			
Prepaid insurance, expenses, etc.	393,144	275,854	
Supplies	85,713	85,625	
Unamortized debenture financing expenses	22,833	—	361,479
	501,690	—	
	\$11,869,424	\$12,369,244	

The Notes to Statements are an integral part of this statement.

MENT STORES, INC.

RY COMPANIES

HEET AS AT JANUARY 31, 1944

LIABILITIES

	As at January 31, 1944		As at January 31, 1943	
CURRENT LIABILITIES:				
Accounts payable—trade creditors (including liability for merchandise in transit)		\$ 1,569,745		\$ 1,266,794
Accrued salaries, interest and expenses		597,840		471,514
Accrued Federal income and excess profits taxes	\$3,561,303		\$2,628,719	
Less: U. S. Treasury Notes—Tax Series C	3,561,303	—	—	2,628,719
Accrued taxes—other Federal, state and local		319,366		215,623
Sundry other liabilities		38,544		90,435
Dividends declared on Preferred Stock, payable February 1, 1944-1943		32,075		33,590
Debenture Sinking Fund payment—due October 31, 1944.....		160,000		—
Total Current Liabilities		2,717,570		4,706,675
3¾% Sinking Fund Debentures—due November 1, 1958 (Note B)...	3,000,000			—
Less: Sinking Fund payment, due October 31, 1944.....	160,000	2,840,000	—	
Total Liabilities		5,557,570		4,706,675
CAPITAL STOCK:				
Preferred Stock 7% Cumulative, Par Value \$100.00 Per Share—(Note C):		<u>Shares</u>		<u>Shares</u>
Authorized and issued			24,800	2,480,000
Less: Held in treasury for retirement			5,656	565,600
Outstanding			19,144	1,914,400
Common Stock—Without Par Value:				
Authorized	320,000		320,000	
Issued	308,946	1,580,252	308,946	1,580,252
Less: Reacquired and held in treasury	—	—	7,100	35,500
Outstanding	308,946	1,580,252	301,846	1,544,752
SURPLUS—PER STATEMENT No. 3 (Note B):				
Earned	\$ 2,815,653		\$2,096,329	
Appropriated	—		35,500	
Capital	1,915,949	4,731,602	2,071,588	4,203,417
		<u>\$11,869,424</u>		<u>\$12,369,244</u>

atement and should be read in conjunction herewith.

STATEMENT NO. 2

INTERSTATE DEPARTMENT STORES, INC.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED JANUARY 31, 1944

	For the Year Ended January 31, 1944		For the Year Ended January 31, 1943	
NET SALES:				
Owned departments	\$36,541,050		\$33,331,875	
Leased departments	5,004,155		4,737,548	
		\$41,545,205		\$38,069,423
COST OF GOODS SOLD, OPERATING AND ADMINISTRATIVE EXPENSES		37,084,847		34,291,901
		4,460,358		3,777,522
LESS:				
Depreciation on building, alterations and improvements, fixtures, equipment, etc.	201,291		198,844	
Amortization of leaseholds	14,370	215,661	15,244	214,088
		4,244,697		3,563,434
OTHER INCOME—NET		91,832		11,680
		4,336,529		3,575,114
LESS:				
Proportion of profit of a subsidiary company applicable to its minority interest		—		241
NET PROFIT, BEFORE PROVISIONS FOR FEDERAL INCOME AND EXCESS PROFITS TAXES		4,336,529		3,574,873
PROVISION FOR FEDERAL INCOME TAXES	380,000		515,000	
PROVISION FOR FEDERAL EXCESS PROFITS TAXES, after deducting post-war credit of \$295,500 in 1944 and \$204,622 in 1943, net of \$10,538 debt retirement allowance for such period	2,659,500		1,935,000	
PROVISION FOR PRIOR YEARS FEDERAL TAXES ON INCOME, after deducting post-war credit of \$32,606	170,500	3,210,000	—	2,450,000
NET PROFIT—Statement No. 3		\$1,126,529		\$1,124,873

STATEMENT NO. 3

CONSOLIDATED STATEMENT OF SURPLUS
FOR THE YEAR ENDED JANUARY 31, 1944

	For the Year Ended January 31, 1944		For the Year Ended January 31, 1943	
EARNED SURPLUS (Notes B and C):				
Balance—beginning of period		\$2,096,329		\$1,410,443
ADD:				
Net profit for the year ended January 31, 1944-1943—Statement No. 2		1,126,529		1,124,873
Transfer of appropriated surplus applicable to 7,100 shares of common stock, sold during year		35,500		—
		3,258,358		2,535,316
LESS:				
Dividends paid on Preferred Stock—four quarterly dividends	\$132,319		\$137,141	
Accrued dividend paid in connection with redemption of Preferred Stock (Note C)	4,990		—	
Dividends paid on Common Stock	305,396	442,705	301,846	438,987
Balance—end of period—Statement No. 1		\$2,815,653		\$2,096,329
APPROPRIATED SURPLUS:				
Balance—beginning of period		\$ 35,500		\$ 35,500
Transferred to earned surplus (see above)		35,500		—
Balance—end of period—Statement No. 1		—		\$35,500
CAPITAL SURPLUS (Notes B and C):				
Balance—beginning of period		\$2,071,588		\$2,065,302
ADD:				
Excess of selling price over adjusted cost value (equivalent to stated value) of 7,100 shares of Common Stock, sold during the period		35,500		—
Discount or Premium on 7% Preferred Stock purchased for redemption (815 shares January 31, 1944, 990 shares January 31, 1943)		7,849		8,786
		2,099,239		2,074,088
LESS:				
Adjustment in connection with acquisition of minority interest		—		2,500
Premium of \$10.00 per share paid in connection with redemption of 18,329 shares of 7% Preferred Stock (Note C)		183,290		—
Balance—end of period—Statement No. 1		\$1,915,949		\$2,071,588

Red figures are designated by *italics*.

The Notes to Statements are an integral part of this statement and should be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC.
AND SUBSIDIARY COMPANIES

NOTES TO STATEMENTS
AS AT JANUARY 31, 1944

NOTE A—Merchandise inventories, as at January 31, 1944, which include merchandise in transit, in the amount of \$411,591.18, are stated on the following bases which are consistent with those used in the preceding year:

At Stores— At the lower of cost, or market, as calculated by the retail method of inventory valuation.
At Warehouses—At the lower of cost (substantially on the "First in, First out", basis) or replacement market.
In Transit— At specific invoice cost.

NOTE B—The Indenture pursuant to which the 3¾% Sinking Fund Debentures, due November 1, 1958, were issued contains certain restrictions on the right of the Company to declare dividends (other than stock dividends). As at January 31, 1944 approximately \$655,000 of the Company's surplus was not subject to such restrictions. The said amount will be increased or decreased primarily to the extent that future consolidated net income (as defined in the Indenture) is in excess of or less than future dividend distributions.

On October 31, 1944 and annually thereafter, payments of \$160,000 are required to be made into the Sinking Fund.

NOTE C—On January 15, 1944 the Company called for redemption on February 15, 1944, all the outstanding shares of its Preferred Stock and deposited with the Bank of Manhattan Company for the account of the holders of the Preferred Stock, the sum of \$2,021,179.52 being the redemption price of \$110.2722 per share required by the Certificate of Incorporation, consisting of \$110 per share plus the amount of \$.2722 per share representing the dividend accrued thereon from February 1, 1944 to February 15, 1944. The accompanying financial statements have been prepared on the basis of giving effect to such redemption of Preferred Stock.

The financial statements are subject to the final determination of Federal, state and other taxes.

ACCOUNTANTS' REPORT

TO THE BOARD OF DIRECTORS,
INTERSTATE DEPARTMENT STORES, INC.,
NEW YORK, N. Y.

We have examined the consolidated balance sheet of Interstate Department Stores, Inc. and subsidiary companies as at January 31, 1944 and the consolidated statements of profit and loss and surplus for the year then ended; have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

Our examination of the merchandise inventories included a general review of the inventory procedures and records, including the retail inventory records, and tests to determine the mathematical accuracy of the inventory schedules. In addition, our representatives were present at the Company's warehouses as well as at certain stores, which we considered to be representative and which we selected for test purposes, to determine that the inventory procedures were carried out effectively and to make tests of the quantities in the inventory. We also communicated directly with vendors who are holding Company's merchandise pending delivery instructions from the Company. Our examination of the customers' accounts receivable included tests by direct communication with a selected number of customers at stores selected by us.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of profit and loss and surplus, together with the Notes to Statements, present fairly the consolidated position of Interstate Department Stores, Inc. and subsidiary companies at January 31, 1944, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. LEIDESDORF & Co.

New York, N. Y.
April 14, 1944.

This report is solely for statistical information for stockholders, and is not a representation, prospectus or circular in respect of any stock of any corporation, and is not transmitted in connection with any sale or offer to sell or buy any stock or security now or hereafter to be issued, or with any preliminary negotiation for such sale.